



GEORGIA DEPARTMENT OF AUDITS AND ACCOUNTS



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Accounting and Reporting Issues

MD&A

- Management's Discussion and Analysis
- Required Supplementary Information – GASB 34
- Purpose is to provide an ***objective*** and easily readable ***analysis*** of the government's financial activities
- Management's analysis – Auditor role is to ensure that the required elements exist

Elements of an MD&A

Analysis of the government's financial activities based on currently known facts, decisions, or conditions.

- Focus on making reader aware of differences between governmental funds and the governmental activities caused by the differences in measurement focus and basis of accounting
- Items in the reconciliation schedules
- Example – Why would a purchase of land decrease fund balance on the fund level but not on the net position of governmental activities

Elements of an MD&A

Comparisons of the current year to the prior year based on the government-wide information.

- Total assets (distinguish capital assets from other assets)
- Total liabilities (distinguish long-term liabilities)
- Total Net Position (distinguish each of 3 components)
- Program Revenues
- General Revenues
- Total Revenues
- Program Expenses by function
- Total Expenses

Elements of an MD&A

Comparisons of the current year to the prior year based on the government-wide information.

- Excess (deficiency) before contributions, special and extraordinary items, and transfers
- Contributions
- Special and extraordinary items
- Transfers
- Change in net position
- Ending net position

Elements of an MD&A

Comparisons of the current year to the prior year based on the government-wide information.

- Should be presented as condensed financial statements
- Charts and Graphs can supplement, but not substitute

Elements of an MD&A

Provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities

- Analysis should address important economic factors that affected the results of operations (changes in tax base)
- Explain *reasons* for significant changes in:
 - Financial Position
 - Results of operations
 - Significant changes in Net Position
 - Significant changes in Fund Balance

Elements of an MD&A

Provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities

- Not analysis

“Net position increased by \$2 million in the current fiscal year.”

- Analysis

“Net position increased by \$2 million in the current fiscal year due to an increase in the millage rate of 1.5 mills approved by the Board of Education”

Elements of an MD&A

Provide an analysis of significant changes that occur in funds and significant budget variances.

- Why did variations occur?
- Reasons for changes in General Fund
 - Original Budget to Final Budget
 - Final amended budget to actual results

Elements of an MD&A

GASB 34 Implementation Guide Question #9

Q—In the discussion of significant general fund budget variances, is it sufficient to state that the original budget was increased to cover higher-than-expected expenditures?

A—No. MD&A is required to provide an analysis of significant budget variances. The analysis should discuss reasons for those variances including those that are expected to significantly affect future services or liquidity. MD&A should explain why the variances occurred (for example, the factors that contributed to expenditures exceeding budgeted amounts). The analysis may refer the reader to discussions of those reasons presented in other sections of the MD&A.

Elements of an MD&A

Describe capital asset and long-term debt activity during the year.

Examples:

- Construction-related commitments
- Changes in credit ratings
- Changes in Debt limitations

Elements of an MD&A

Discussion of *currently known* facts, decisions, or conditions that are expected to have a *significant effect* on results or operations.

Limit discussion to factors *already in place*

- *Bill that has been enacted*
- *Resolution adopted*
- *Contract that has been signed*
- *Award of major grant*
- *Settlement of lawsuit*
- *Major change in tax base*

MD&A

- Management's analysis
- Omission does not affect the auditor's opinion
- Auditor's report must mention that required element is missing
- Auditor performs limited procedures



PENSION ACCOUNTING RULES - CHANGES UNDER GASB STATEMENT NO. 68

Scope of Standards

- GASB 67 applies to governmental pension plans administered through trusts where:
 - Contributions and earnings are irrevocable
 - Plan assets are dedicated to providing pensions based on benefit terms
 - Plan assets are legally protected from creditors
- GASB 68 applies to:
 - Governments whose employees participate in plans covered under GASB 67
 - Governmental nonemployer entities who are obligated to provide contributions directly to the plans

Effective Dates

- GASB 67 (Pension Plans)
 - Effective for periods beginning after June 15, 2013
- GASB 68 (Employer Accounting and Reporting)
 - Effective for periods beginning after June 15, 2014

Defined Benefit Classifications

- Single-employer
 - Provides pensions to employees of only one employer
 - A primary government and its component units are considered to be one employer
- Cost-sharing multiple-employer
 - Obligations of more than one employer are pooled
 - Assets can be used to pay benefits to employees of any employer
- Agent multiple-employer
 - Assets are pooled for investment purposes
 - Separate accounts are maintained for individual employers
 - Each employer's share of pooled assets is legally available to pay benefits of only its employees

New Balance Sheet Liability

- The *Net Pension Liability* (NPL) will be added to the balance sheet for all employers
- $NPL = TPL - FNP$
 - $NPL = \text{Total Pension Liability} - \text{Plan's Fiduciary Net Position}$
- Liabilities will be based on:
 - Entry Age Normal actuarial cost method
 - Discount rate equal to expected investment rate of return, except for:
 - Benefit payments not expected to be covered by plan assets - referred to as the Cross-Over Date
 - Such payments discounted at long-term AA municipal bond rate
- First-year impact likely to be significant due to size of NPL
- Employers in cost-sharing plans will be allocated proportionate share of plan NPL to record

New Balance Sheet Liability

- The *Net Pension Liability* (NPL) will be based on a *Measurement Date*
- Liability for 6/30/15 is based on actuarial measurement date of 6/30/14
- Any subsequent contributions to the plan after measurement date are considered deferred outflows

Pension Expense

- Pension Expense will be recognized during each fiscal year and reflects recognized changes in the NPL for:
 - Service Cost (cost of one year's benefit accrual), Plus
 - Interest cost on the NPL, Less
 - Expected Investment Earnings on the Plan's MVA, Plus (or Minus)
 - Recognition of changes for:
 - Plan changes (recognized immediately)
 - Difference between actual and expected investment earnings (closed 5-year period)
 - Changes in liability due to assumption changes or experience gains/losses in the liabilities (amortized over average remaining service life of active and inactive employees)
- Deferred items will be adjusted by additions to or recognition of, the items above
- Pension Expense is not the same as a funding amount – it is the change in the NPL recognized from year to year

Expanded Disclosures

- Note disclosures include:
 - Description of methods and assumptions used to calculate the contributions
 - Schedule of changes in net pension liability (single/agent)
 - **Proportionate share of NPL (cost-sharing)**
 - Investment policy, asset allocations, expected long-term rate of return, and how calculated
 - NPL sensitivity to discount rate changes
 - Pension expense and deferred items with amortization schedule

Expanded Disclosures

- Required Supplementary Information (RSI) expanded to ten years and schedules added
 - Schedule of changes in net pension liability with related ratios (single/agent)
 - Schedule of proportionate NPL with related ratios (cost-sharing)
 - Schedule about contributions, amounts actually contributed, and related ratios

Employers in TRS/ERS: Need to Know

- TRS/ERS will calculate proportionate share of NPL and Pension Expense
- TRS/ERS plan to communicate actuarial results to employers in Spring 2015.
- TRS/ERS plan to use 6/30/14 as measurement date for NPL for 6/30/15 financial reports
- A deferred outflow will need to be calculated and recorded for payments to the plan from measurement date to financial statement date.

Q&A

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